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CIAOER  
Special Issue on the Recession In Major Foreign Countries

EIW 75-05-21 May 75

S/NFD 1 of 1  
ER EIW 75-20

**Secret**

*No Foreign Dissem*



# Economic Intelligence Weekly

*Special Issue on the Recession  
In Major Foreign Countries*

**Secret**

ER EIW 75-20

21 May 1975

**NATIONAL SECURITY INFORMATION**  
**Unauthorized Disclosure Subject to Criminal Sanctions**

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§ 5B(i), (2), and (3)  
Automatically declassified on:  
Date Impossible to Determine

No Foreign Dissem

# ECONOMIC INTELLIGENCE WEEKLY

21 May 1975

NOTE: This issue focuses on one question—the extent to which the recession in the major foreign industrial countries has bottomed out.

Major Foreign Countries: Not Yet At The Bottom . . . . . 1

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[REDACTED] . . . . . 19

Publication of Interest

25X1A

Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [REDACTED] the Office of Economic Research, Code 143, Extension 7892.

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## MAJOR FOREIGN COUNTRIES: NOT YET AT THE BOTTOM

Although the worst of the recession is almost certainly over, we expect some further decline in production in the six major foreign economies. [REDACTED]

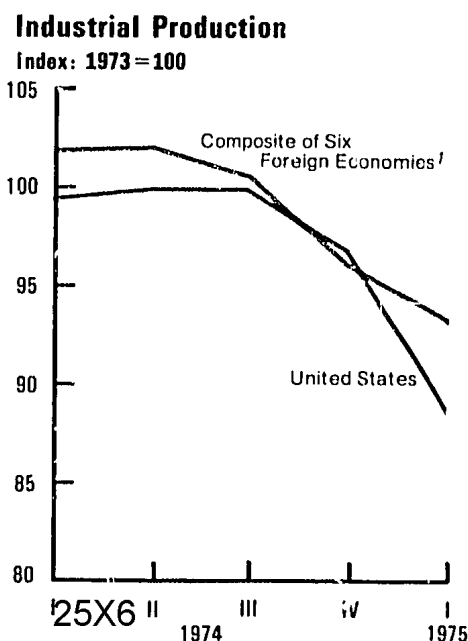
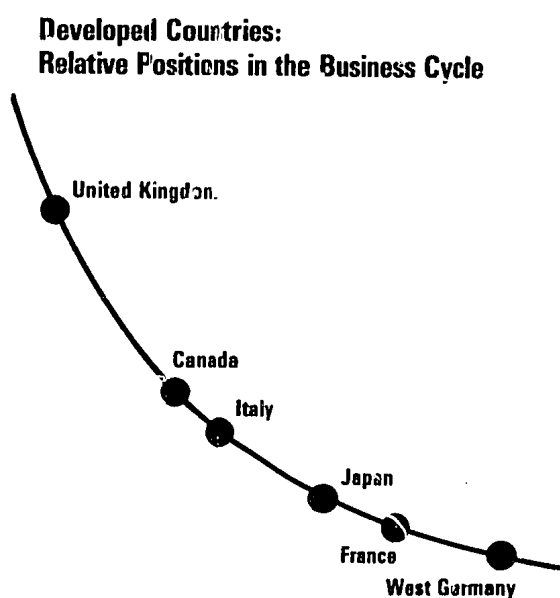
25X6

25X6

Italy's prospects are the most uncertain: we expect a further moderate decline but a steep dip is possible.

Our composite industrial index dropped at a 12% annual rate during October-March and will probably slip a bit further in the months ahead. Several factors are continuing to have a negative effect, albeit a reduced one. High unemployment rates and low capacity utilization have dampened consumer and investor confidence. Inventories remain excessive at all levels, [REDACTED] A sag in foreign demand is compounding the problems caused by lackluster domestic sales.

25X6



586005 5-75

Despite severe unemployment, real consumer income has been buoyed by generous unemployment benefits and rapidly increasing money wage rates. Retail sales nevertheless remain sluggish as consumers respond to job uncertainties by boosting savings.

With demand in the doldrums, the retrenchment in business investment appears to be continuing. Plant expansion plans are being curtailed because almost all major industries have been operating well below capacity since mid-1974. [REDACTED]

[REDACTED] recent months have seen a rapid buildup in idle plant in other countries as well. Housing investment also continues to flag, despite a downward trend in interest rates. Even if homebuyer interest revives, a large overhang of unsold dwellings will inhibit new starts.

Foreign demand will not provide the cushion it did last year, nor will it serve as a stimulus to recovery. For most countries, export volume began declining in late 1974, and the fall has accelerated in recent months. [REDACTED]

[REDACTED] Underlying the falloff have been the general recession in industrial countries and mounting balance-of-payments problems in non-oil LDCs. OPEC and Communist countries constitute the only growing export markets, yet the estimated increase in their 1975 imports from the Big Six equals only one-half percent of the group's GNP.

Governments have been hesitant to initiate expansionary policies because of continuing concern over rising consumer prices and payments deficits. They continue to be more influenced by these factors than by declining wholesale prices.

In [REDACTED] Italy, trade and payments problems pose additional constraints.

Although we expect major industrial countries as a group to approach the bottom this summer, the timing and pace of recovery remain uncertain. Inventories, while generally declining, are still very high. Any strengthening of final demand would be met largely from inventories rather than from increased output; any further softening in demand – which we view as more likely – would spur producers to cut output rather than accept a decreased rate of inventory drawdown. Given these prospects for high unemployment and low capacity utilization, we see little stimulus coming from private demand. For their part, foreign governments are likely to remain too skittish about inflation and payments problems to take strong expansionary action. (For Official Use Only)

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### ITALY: STILL GOING DOWN

Fragmentary evidence suggests that the worst of the Italian recession has passed. Although our best guess is that production will decline only moderately in the next few months, we cannot rule out a further steep drop.

The sudden and precipitous decline in Italy's industrial production that marked the fourth quarter of 1974 was checked in the first quarter of 1975. Output in January-March was down only about 1% despite considerable strike activity as labor fought for improved fringe benefits. Import volume fell much more steeply than domestic output, dropping an estimated 13% in the first quarter; this repeated the fourth quarter decline. The steep drop in imports probably resulted from attempts by businessmen to eliminate excess inventories built up in the last half of 1974 as well as from the low level of domestic demand.

The decline in industrial activity over the past six months has not been fully reflected in unemployment data. Indeed, January's labor survey showed only 2.7% unemployment. More indicative of the low level of industrial activity was a rapid rise in the use of short time, up 80% in the first quarter compared with the same period last year.

Indirect evidence suggests that final demand probably fell only slightly in the first quarter, after a sharp decline in the fourth quarter of 1974. Export volume -- buoyed by strong demand for gas and oil pipe and continued growth in sales to OPEC states -- barely dipped. Consumer spending, which accounts for more than half of final demand, probably eased off slightly. A small reduction in inflation, improved wage escalator clauses, higher pensions, and better unemployment and short-time benefits probably failed to offset higher taxes, a widespread reduction in hours, and general economic and political uncertainties. A moderate drop in interest rates may have weakened incentives to save.

Fixed investment -- normally 17% of final demand -- suffered the most. Although the repatriation of capital from abroad eased company financing problems, spending on housing and on plant and equipment plummeted because of weak demand, rising costs, and continued double digit interest rates.

Production is likely to stagnate rather than decline steeply in the coming months as the decline in final demand levels off. The sharp drop in output and

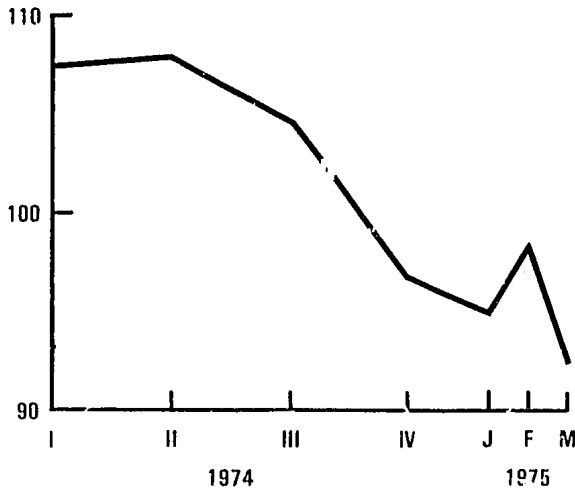
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## ITALY: Economic Indicators

### Industrial Production

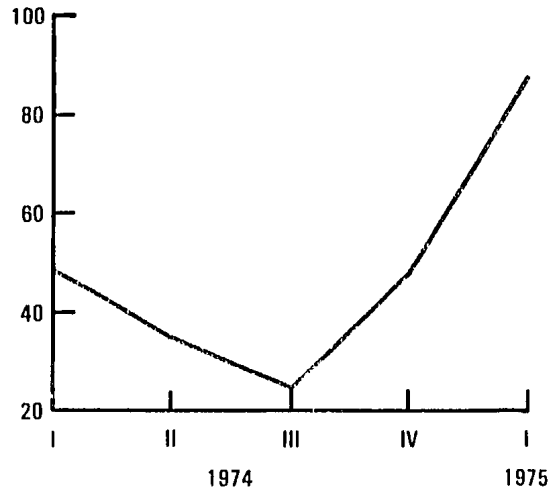
Index: 1973=100 (seasonally adjusted)



### Short-time Hours

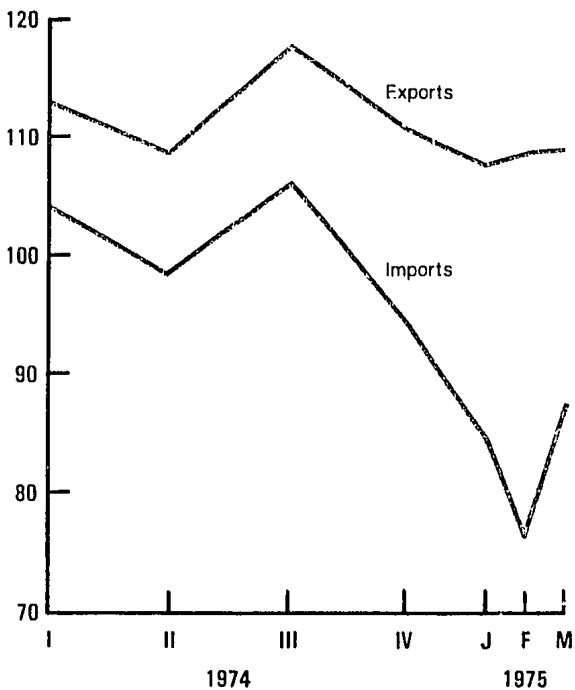
Compensated by the National Wage Fund

Million Hours



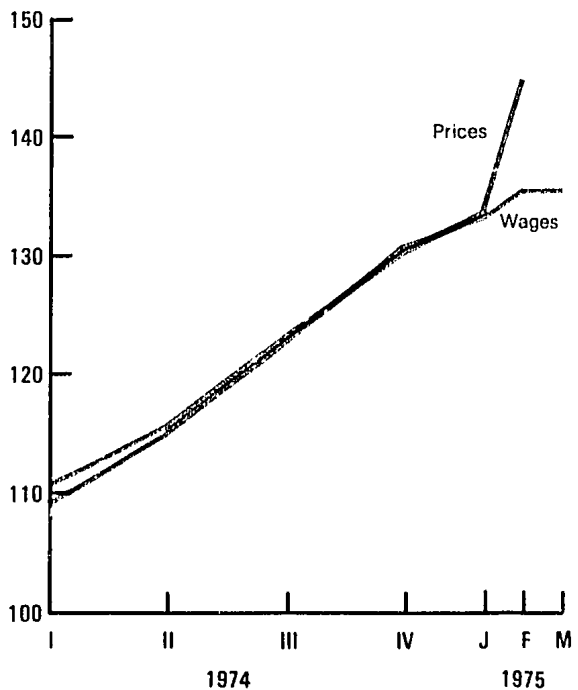
### Trade Volume

Index: 1973=100 (seasonally adjusted)



### Prices and Wages

Index: 1973=100



588002 5-75

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import volume over the past six months probably has worked off much of Italy's inventory overhang – never as large as those in the United States and Japan in any case.

With production no longer declining sharply, the drain on workers' incomes from short time will ease. At the same time, a pickup in production is unlikely through the summer.

The continued loosening of government policies since February will have little immediate impact. With rates of capacity utilization among the lowest in Western Europe, Rome can hardly expect freer credit and lower interest rates to prod investment. Likewise, increased unemployment benefits will only help contain any drop in spending. Local and regional elections in June may lead to another government reshuffle and a slightly more expansionary economic policy after midyear. Nevertheless, an anticipated worsening in the trade account as foreign customers work off inventories, the threat of another resurgence of inflation, and the financial difficulties of many state companies seemingly preclude major new infusions of government funds into the economy. (For Official Use Only)

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## FRANCE: WANING SLUMP

The need to reduce excessive inventories and a possible further decline in final demand presage a continued slump in French output over the next few months. The government, intent on stemming inflation and improving the trade account, has little scope for stimulative action in the near term.

Industrial production in the first quarter of 1975 fell about 10% from the peak of last summer, while inventories continued to pile up. Recent reporting indicates that inventories may have started down in May as a result of further cuts in production since March. With final demand likely to remain weak, we see no reason for output to pick up until excess stocks are worked off.

Sales of manufactured consumer goods, off only 0.6% in the first quarter from the peak of early last year, have apparently held up better than overall domestic demand. Household income probably continued to increase through March because wage increases and a generous unemployment compensation system offset unfavorable trends in unemployment and hours worked.

Unemployment - 4% of the labor force in April - will almost certainly increase through the third quarter as new graduates enter the labor force. A firming in consumer demand is thus unlikely in coming months; a further slump is possible if households decide to increase precautionary savings. Savings rates could rise even higher as workers see unemployment figures climb and as those persons getting unemployment compensation approach the one-year cutoff date.

The French economy has been benefiting from a net stimulus from the foreign sector since late last year. Exports of manufactures were stable in value and down a little in volume terms through January; the decline in imports was more pronounced. These trends produced a trade surplus during the first four months of 1975. Appreciation of the franc and continued softness in major markets make it unlikely that further stimulus will be forthcoming from this source.

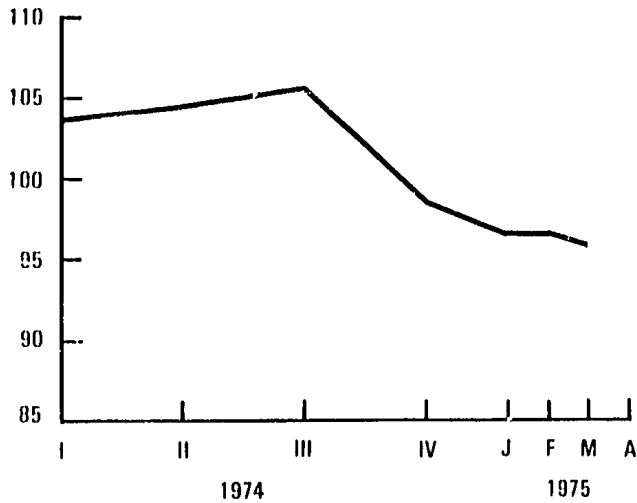
Investment fell rapidly in the first quarter of the year, judging from the 5% drop in capital goods output. Two factors promise to temper the sharp decline in investment spending. In late April, Paris announced a \$3.5 billion program of tax credits, subsidized loans, and government spending to stimulate investment. Moreover, French industry, unlike its German counterpart, had been straining against capacity limits during the 18 months prior to the slump.

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## France: Economic Indicators

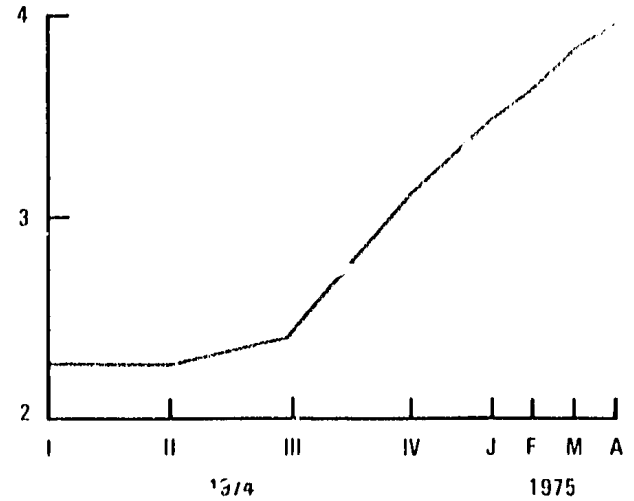
### Industrial Production

Index: 1973 = 100 (seasonally adjusted)



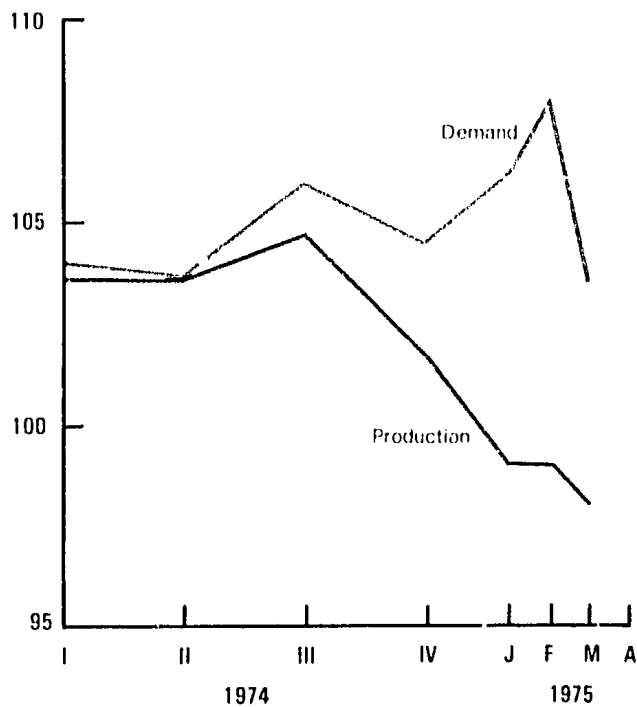
### Unemployment Rate

Percent



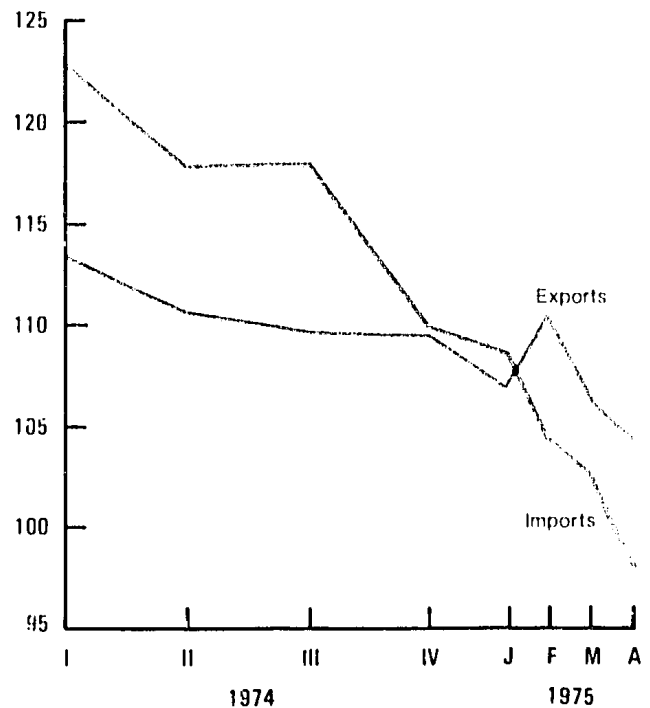
### Consumer Goods

Index: 1973 = 100 (seasonally adjusted)



### Trade Volume

Index: 1973 = 100 (seasonally adjusted)



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Government policy is now moderately expansionary. The program announced in April to stimulate investment followed earlier steps to aid low-income groups and to boost housing construction. Even though monetary policy has not eased appreciably, the economic slowdown has meant that credit ceilings now have little impact. In the face of a 10% annual rate of increase in consumer prices, Paris is reluctant to undertake further stimulative measures. We expect this attitude to soften as the economy continues to stagnate. (For Official Use Only)

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**Publication of Interest\***

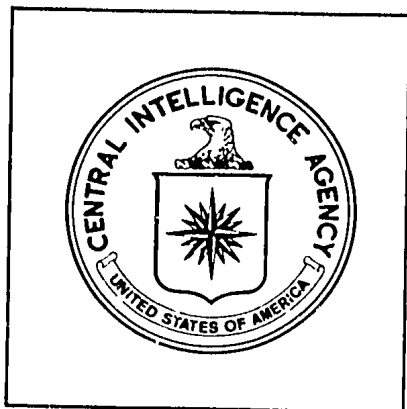
**Worldwide Distribution of OPEC Assets  
(ER IR 75-14, May 1975, Confidential No Foreign Dissem)**

This report is the second in a series presenting detailed estimates of the distribution of foreign official assets of OPEC states – by type of investment, location, and currency denomination. The bulk of the holdings were concentrated in liquid, dollar-denominated assets in major financial centers at the end of 1974. Recent trends in OPEC investment are also considered.

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\* Copies of this publication may be ordered by calling [REDACTED] Code 143, Extension 7234. 25X1A





## *ECONOMIC INDICATORS*

Prepared by

The Office of Economic Research

May 21, 1975

### Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 7402 or 351-7402.

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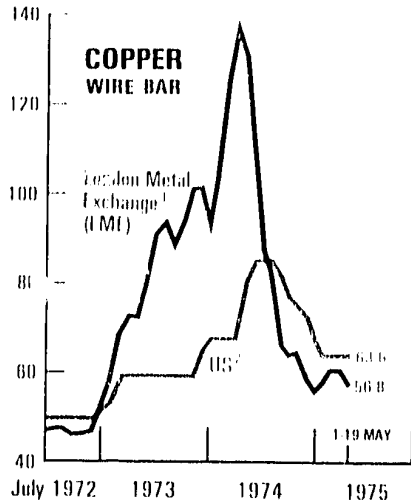
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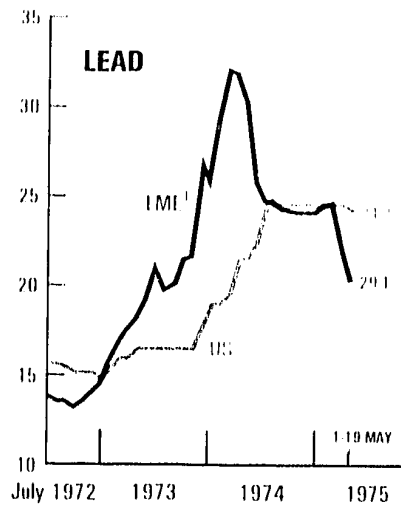
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**INDUSTRIAL MATERIALS PRICES** Monthly Average Cash Price



c Per Pound

	LME	US
19 May	57.0	63.6
12 May	56.7	63.6
Apr 75	60.2	63.6
May 74	130.4	80.8

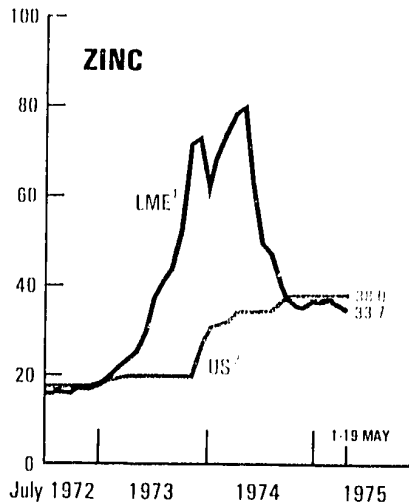


c Per Pound

	LME	US
19 May	20.1	24.0
12 May	19.4	24.0
Apr 75	21.6	24.0
May 74	30.3	24.0

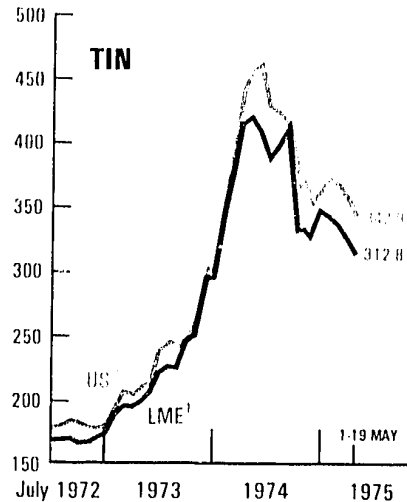
**SELECTED**

Aluminum  
 Steel Coils  
 Iron Ore  
 Chrome Ore  
 Chrome Ore  
 Ferrochrome  
 Nickel Major  
 Manganese  
 Tungsten  
 Mercury NY  
 Silver LME



c Per Pound

	LME	US
19 May	33.7	36.0
12 May	33.5	28.0
Apr 75	35.4	38.0
May 74	80.6	34.8

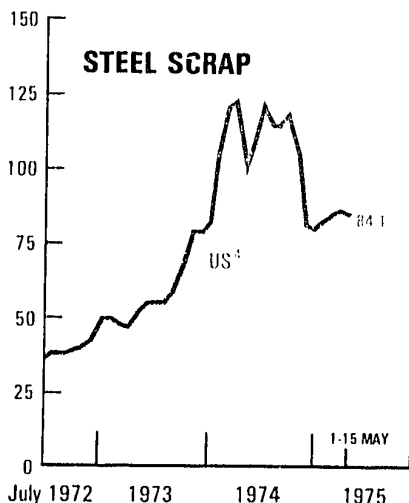


c Per Pound

	LME	US
19 May	309.7	312.0
12 May	310.6	312.0
Apr 75	323.2	312.0
May 74	422.1	312.0

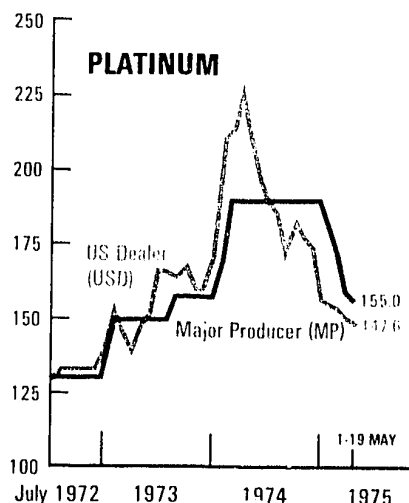
**RUBBER**

Natural (NR)  
 10  
 20  
 30  
 40  
 50  
 60  
 July 1972 1973 1974 1975



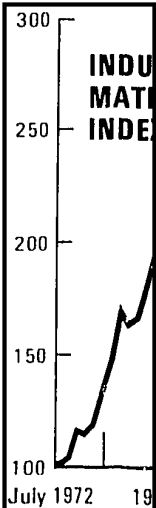
\$ Per Long Ton

	US
15 May	82.7
12 May	84.3
Apr 75	85.7
May 74	96.6



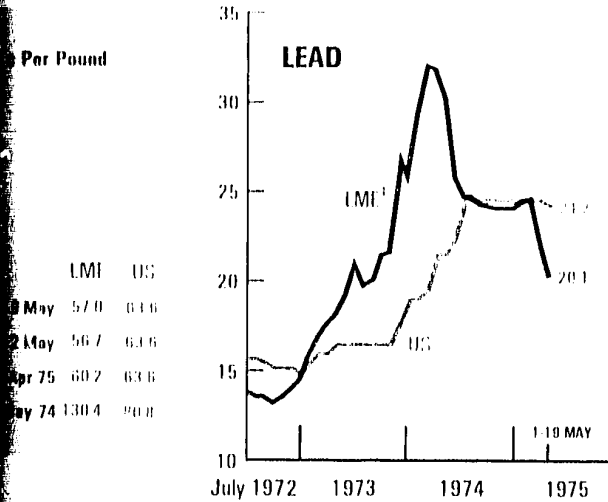
\$ Per Troy Ounce

	MP	USD
19 May	155.0	157.0
12 May	155.0	157.0
Apr 75	157.7	157.0
May 74	190.0	210.0



<sup>1</sup> Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.  
<sup>2</sup> Producers' price, covers most primary metals sold in the United States.  
<sup>3</sup> Quoted on New York market.  
<sup>4</sup> Composite price for Chicago, Philadelphia, and Pittsburgh.  
<sup>5</sup> S-type...

**ICES Monthly Average Cash Price**

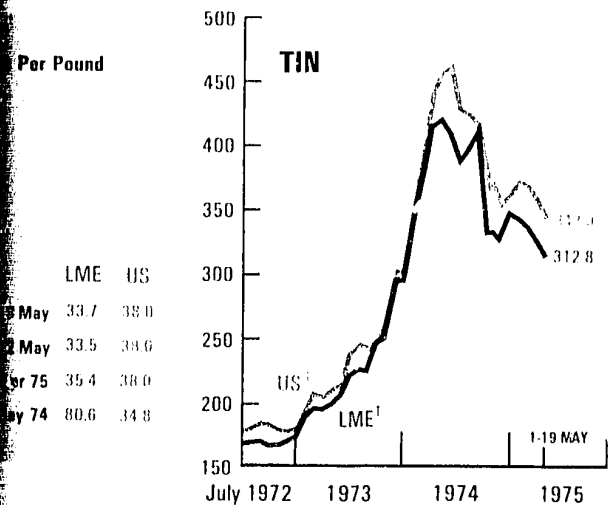


¢ Per Pound

	LME	US
19 May	20.1	20.1
12 May	19.4	20.1
Apr 75	21.6	20.1
May 74	30.3	20.1

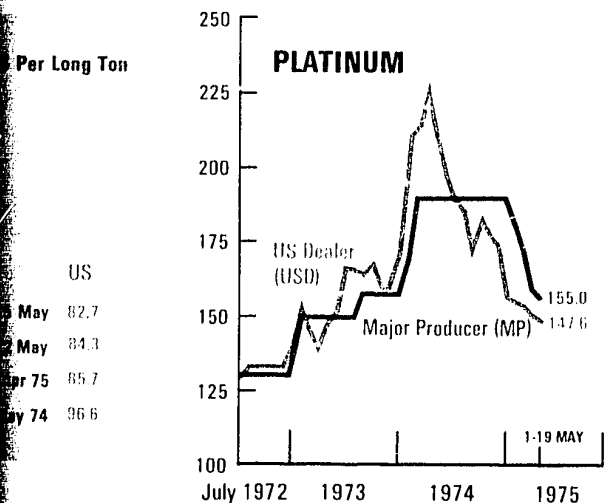
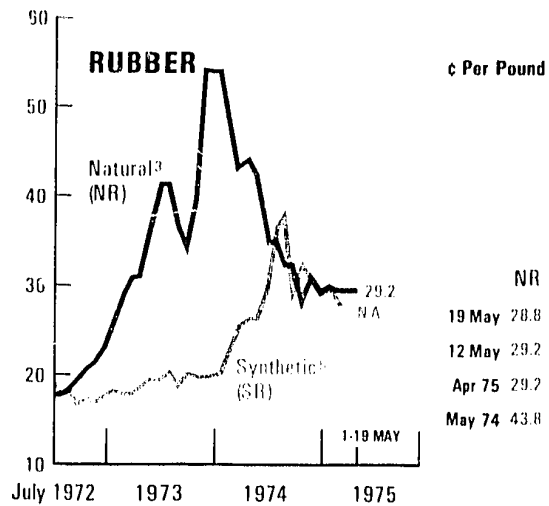
**SELECTED MATERIALS**

	Current	Nov 74	Jan 74	Jan 73
Aluminum Major US Prod. c/lb	39.00	39.00	29.00	25.00
Steel Composite SAT	289.03	270.43	212.13	209.08
Iron Ore Non-Bessemer Old Range SAT	17.53	16.00	12.16	11.90
Chrome Ore Russian SAT	135.00	55.50	38.00	45.75
Chrome Ore S. Africa SAT	57.50	49.50	33.50	25.50
Testochrome US Charge c/lb	50.00	42.00	22.50	20.00
Nickel Major US Prod. Cathode SAT	2.01	1.85	1.02	1.53
Manganese Ore 48% Mn SAT	67.20	54.72	52.80	31.40
Tungsten Ore 85% WO <sub>3</sub> SAT	5,833.13	6,021.34	2,872.40	2,241.23
Mercury NY \$/700b flask	100.00	254.94	275.54	282.56
Silver LME cash c/Troy Oz	454.94	407.01	360.29	200.15



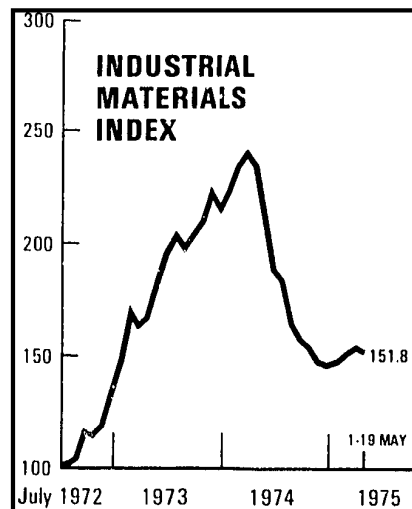
¢ Per Pound

	LME	US
19 May	309.7	320.0
12 May	310.6	320.0
Apr 75	323.2	320.0
May 74	422.1	320.0



\$ Per Troy Ounce

	MP	USD
19 May	155.0	157.0
12 May	155.0	157.0
Apr 75	157.7	148.0
May 74	190.0	210.6



CPYRGHT

1970=100 CPYRGHT

This is a compiled index by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

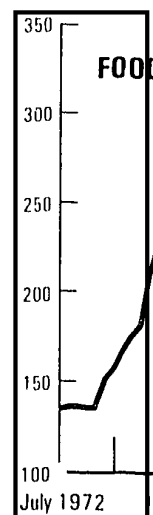
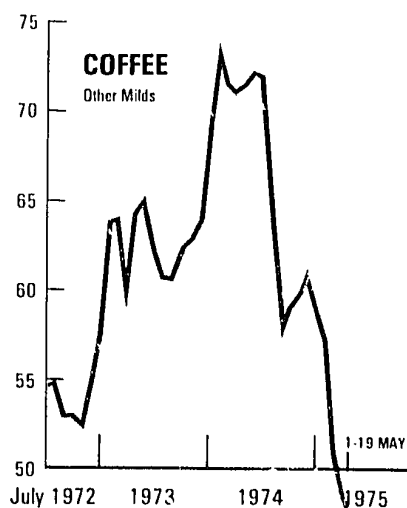
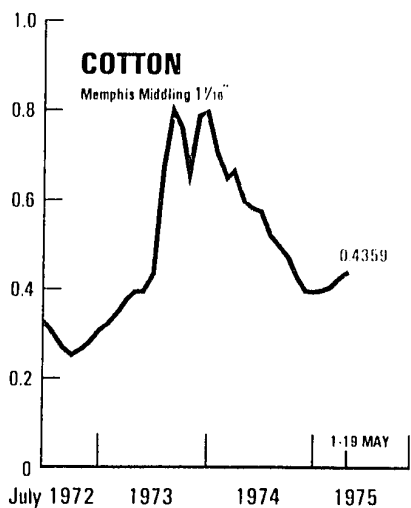
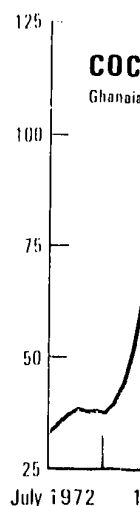
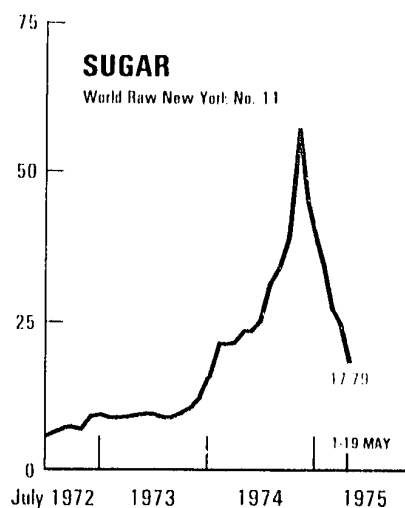
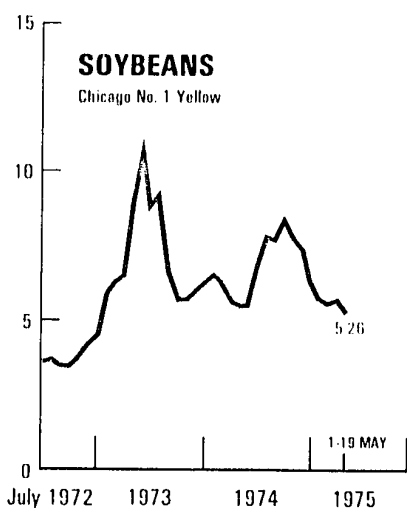
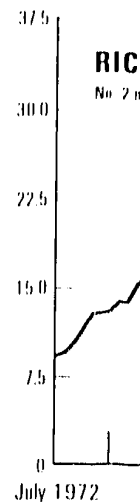
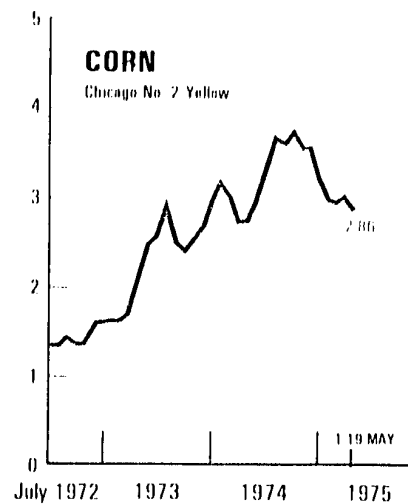
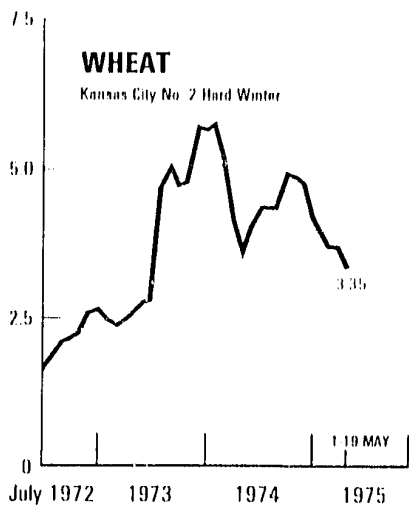
Producers and traders.

on the LME.

ates.

Philadelphia, and Pittsburgh.

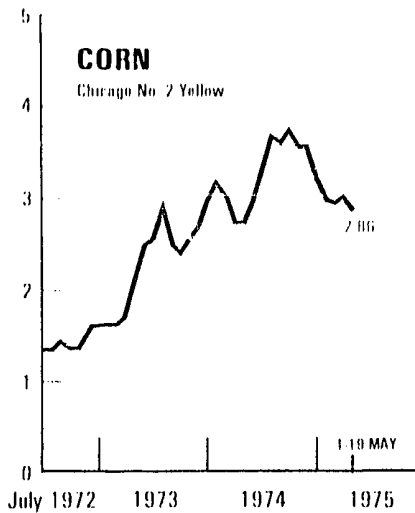
# AGRICULTURAL PRICES Monthly Average Cash Price



Average Cash Price

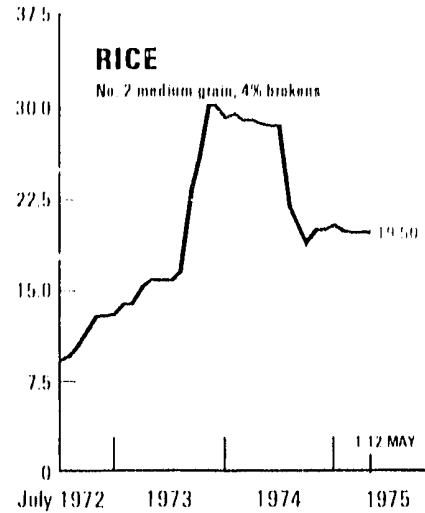
Per Bushel

May 3.35  
May 3.35  
Apr 75 3.66  
May 74 3.58



\$ Per Bushel

19 May 2.87  
12 May 2.88  
Apr 75 2.99  
May 74 2.70

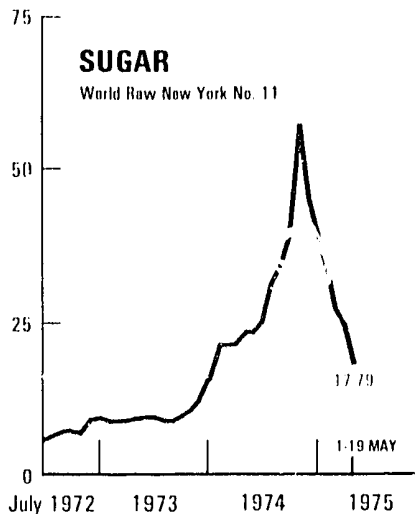


\$ Per cwt.  
f.o.b. mills, Houston, Tex.

12 May 19.50  
5 May 19.50  
Apr 75 19.50  
May 74 28.60

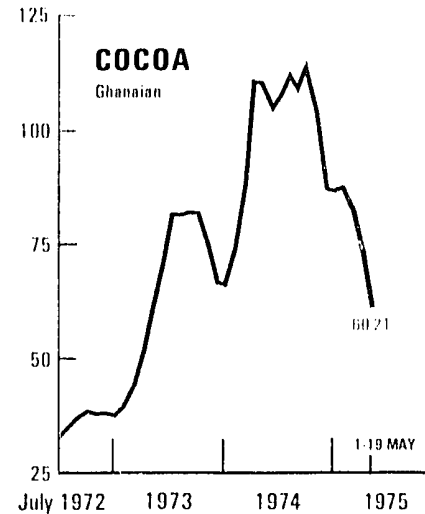
Per Bushel

9 May 5.30  
2 May 5.24  
Apr 75 5.76  
May 74 5.42



c Per Pound

19 May 16.75  
12 May 17.00  
Apr 75 24.08  
May 74 23.60

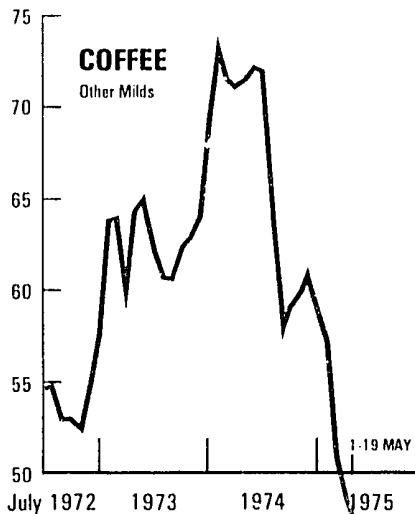


c Per Pound  
New York price

19 May 62.50  
12 May 58.50  
Apr 75 72.92  
May 74 109.70

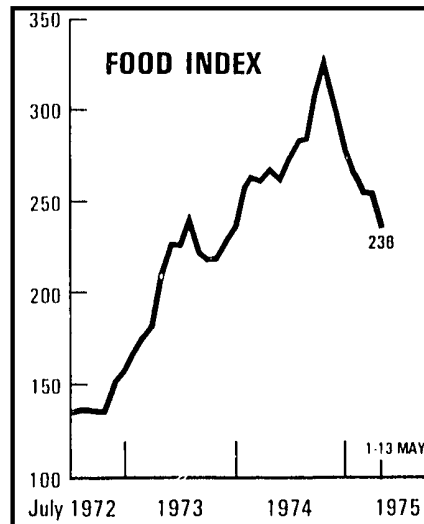
Per Pound

9 May 0.4330  
2 May 0.4410  
Apr 75 0.4237  
May 74 0.5880



c Per Pound

19 May 47.25  
12 May 47.00  
Apr 75 48.48  
May 74 71.16



CPYRGHT  
1970 = 100 CPYRGHT

This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.